

**REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND
PERFORMANCE INFORMATION OF THE NAMAKWA DISTRICT MUNICIPALITY
FOR THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Namakwa District Municipality which comprise the statement of financial position as at 30 June 2009 and the statement of changes in net assets, the statement of financial performance and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages xx to xx.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the effective Statements of Generally Recognised Accounting Practice (GRAP) as set out in accounting policy note 1 and in the manner required by the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of the Statement of Generally Recognised Accounting Practice, GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard is not effective for this financial year, I have determined that my audit of

any disclosures made by the Namakwa District Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion the financial statements present fairly, in all material respects, the financial position of the Namakwa District Municipality as at 30 June 2009 and its financial performance and cash flows for the year then ended, in accordance with the effective standards of Generally Recognised Accounting Practice (GRAP), including any interpretations and directives issued by the Accounting Standards Board, and in the manner required by the MFMA.

Emphasis of matters

Without qualifying my opinion, I draw attention to the following matters:

Unauthorised expenditure

9. As disclosed in note 33.1 to the financial statements, unauthorised expenditure amounting to R815 434 was incurred, due to payments to suppliers in excess of the tender amounts.

Fruitless and wasteful expenditure

10. As disclosed in note 33.2 to the financial statements, fruitless and wasteful expenditure amounting to R1 530 457 was incurred, due to payments to service providers for incomplete, substandard or no delivery of services and where service providers were engaged to provide services that the municipality could have performed using its own infrastructure and resources.

Irregular expenditure

11. As disclosed in note 33.3 to the financial statements, irregular expenditure amounting to R6 204 215 was incurred during the financial year, resulting from the following:
 - Payments amounting to R6 010 131 made to service providers without complying with the provisions of the supply chain management policy of the municipality and regulation 24(a) of the Construction Industry Development Board (CIDB) Regulations, which states that all infrastructure contracts exceeding R200 000 must be published on the CIDB website.
 - Loans to contractors amounting to R192 266 were made in contravention of the provisions of section 164(1)(c) of the MFMA.
 - A payment of R1 818 was made in excess of the upper limits set by *Government Notice 1319*, published in *Government Gazette No. 31687 of 8 December 2008*, issued in terms of the Remuneration of Public Office Bearers Act, 1998 (Act No. 20 of 1998).

Restatement of corresponding figures

12. As disclosed in note 29 to the financial statements, the corresponding figures for 2008 have been restated as a result of an error discovered during 2009 in the financial statements of the municipality at, and for the year ended, 2008.

Other matters

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Other information included in the annual report

13. I have not obtained other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

Unaudited supplementary schedules

14. The municipality provided supplementary information in the financial statements on whether resources were obtained and used in accordance with its legally adopted budget, in accordance with GRAP 1 *Presentation of Financial Statements*. The supplementary budget information set out in appendix E1 and E2 does not form part of the financial statements and is provided as additional information. Accordingly I do not express an opinion thereon.

Non-compliance with applicable legislation

Municipal Finance Management Act

15. Contrary to the requirement of section 64(2)(a) of the Municipal Finance Management Act, the Accounting Officer did not ensure that municipality have effective revenue collection systems as municipal buildings were leased out at rates which were below the market related rates.
16. Contrary to the requirements of section 64(2)(g) of the MFMA, the Accounting Officer did not ensure that interest is charged on long-outstanding debts.
17. Contrary to the requirement of section 72(1) of the Municipal Finance Management Act, the Accounting Officer did not assess the performance of the municipality during the first half of the financial year by 25 January 2009.
18. Contrary to the requirement of section 75(2) of the Municipal Finance Management Act, the Accounting Officer did not ensure that documents prescribed in section 75(1) are placed within the 5 days after its tabling in the council on municipal website.
19. Contrary to the requirement of section 79(c) of the Municipal Finance Management Act, the Accounting Officer did not regularly review and update the municipality's system of delegation.
20. Contrary to the requirements of section 116(1) of the MFMA, not all contracts and agreements procured through the supply chain management system of the municipality was in writing and contained provisions providing for:
 - (i) the termination of the contract or agreement in the case of non- or under-performance
 - (ii) dispute resolution mechanisms to settle disputes between the parties
 - (iii) the periodic review of the contract or agreement once every three years in the case of a contract or agreement longer than three years.

Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA)

21. Paragraph 7(1) of the Code of Conduct for Councillors states that a councillor must, within 60 days after appointment or election, declare in writing to the municipal manager the financial interests held by that councillor. Contrary to this requirement,

the declarations of five councillors were found to be incomplete, as membership interests in close corporations and directorships of companies were not declared in the prescribed manner.

22. Contrary to the requirements of section 57 of the MSA, the municipality did not enter into a performance agreement with the chief financial officer during the financial year.

Governance framework

23. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

24. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	X	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		X
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		X
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines as required by section 126 of the MFMA.	X	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	X	
Development of and compliance with risk management, effective internal control and governance practices			
6.	Audit committee <ul style="list-style-type: none">• The municipality had an audit committee in operation throughout the financial year.• The audit committee operates in accordance with approved, written terms of reference.• The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.		X
7.	Internal audit <ul style="list-style-type: none">• The municipality had an internal audit function in operation throughout the	X	

No.	Matter	Y	N
	financial year.		
	• The internal audit function operates in terms of an approved internal audit plan.	X	
	• The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 165(2) of the MFMA.		X
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.		X
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.		X
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	X	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.		X
12.	Powers and duties have been assigned, as set out in section 79 of the MFMA.	X	

Follow-up of audit findings

13.	The prior year audit findings have been substantially addressed.		X
14.	SCOPA resolutions have been substantially implemented.	N/A	

Issues relating to the reporting of performance information

15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.		X
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		X
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets as required by section 68 of the MFMA.	X	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.		X

Quality of financial statements

25. The material amendments to the financial statements were identified by the auditors during the audit and not the internal controls of the municipality. This situation could have led to a qualified opinion had the annual financial statements not been adjusted during the audit. An understanding of the financial reporting objectives must be created with staff of the municipality to mitigate the risks over financial reporting and ensure quality and timeous financial statements. Furthermore, there should also be a discipline to produce quarterly financial statements and management information for review by management, the audit committee and internal audit.

Internal audit and audit committee

26. The establishment of a properly mandated audit committee is of critical importance as their role in the monitoring and review of internal control and financial management is critical to the maintenance of the current audit outcome. The appointment of the committee is the responsibility of council.

Risk management, internal controls and governance

27. An adequate fraud prevention plan should be developed and implemented subsequent to a proper risk assessment process within the municipality. Proper

internal controls and monitoring structures should also be developed by management to address risks of financial and non compliance nature.

Follow up of prior year audit finding

28. The implementation of audit recommendations requires improved monitoring and supervision by management. Action plans developed to address audit outcomes should be monitored and overseen by council supported by the audit committee and internal audit and managed by the accounting officer.

Reporting of Performance information

29. With regard to performance information, the following matters require attention:

The information system framework is not detailed enough to facilitate the preparation of a performance report that is accurate and complete. Furthermore, detailed standard operating procedures setting out the roles and responsibilities of all levels of staff involved in the collection and collation of performance information, from source document to reporting, has not been prepared and communicated throughout the entire municipality. This is indicative of a situation where adequate control processes and procedures were not designed and implemented to ensure the accuracy and completeness of reported performance information and adequate mechanisms were not established to monitor and review the performance management system as required by section 40 of the Municipal Systems Act, 2003.

Investigations

30. An investigation is being conducted to probe the manner in which infrastructure projects were allocated to suppliers. This investigation aims to determine if the Supply Chain Management Regulations and its prescripts were adhered to. The investigation was still ongoing at the reporting date.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

31. I was engaged to review the performance information.

The accounting officer's responsibility for the performance information

32. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the MSA.

The Auditor-General's responsibility

33. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
34. In terms of the foregoing my engagement included performing procedures of an audit nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
35. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

Content of the integrated development plan (IDP)

36. The IDP of the municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.
37. The integrated development plan of the Namakwa District Municipality did not include a financial plan that included a budget projection for at least three years, as required by sections 26(h) of the MSA and regulation 2(3) of the Municipal Planning and Performance Management Regulations, 2001.

Performance management system

38. The performance management system of the municipality did not relate to the municipality's employee performance management processes, as required by regulation 7(1)(f) of the Municipal Planning and Performance Management Regulations, 2001.
39. External service providers of the municipality did not have key performance indicators and performance targets, resulting in them not being reviewed as required by section 46(1)(a) of the MSA.

Monitoring

40. The municipality did not establish mechanisms to monitor and review its performance management system during the financial year, as required by section 40 of the MSA.

Performance information not received in time

41. An assessment could not be performed of the reliability of the reported performance information, as set out on pages xx to xx of the annual report, since the information was not received in time for audit purposes.

APPRECIATION

42. The assistance rendered by the staff of the Namakwa District Municipality during the audit is sincerely appreciated.

Kimberley

30 November 2009



Auditing to build public confidence

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